Future Trends in Banking

Afsaneh Ozaee
PHD, Candidate, Shakhes pajouh institute-Isfahan University, Iran

Ali Sanayeie
Professor & head of management Research institute university of Isfahan, Iran

Seyed Ali Akbar Nilipour
Assistant professor, Shakhes Pajouh Research Institute -Isfahan University, Iran

Abstract

In recent years, we have witnessed significant changes in the banking business models which have encouraged the introduction of diverse services through various channels such as mobile, internet, ATMs and so on. Banks operate in a challenging world of rapid technological change, technology-savvy customers, and increasing expectations. In this environment, banks should offer their services to the customers according to their expectations and needs. Although these changes can pave the way for banks’ growth and progress, the thriving implementation of such strategy requires accurate investments and development of new capabilities which will be surely accompanied with tangible economic feedbacks.

Virtual Channels have gained more popularity due to the penetration of mobile phones and more accessibility to internet. Not only are new banking customer groups willing to use multiple channels, but also they prefer to use other channels than branches for their complex banking transactions. Although branches are still considered as the main channel for providing banking services, but studies show that customers visit to branches to receive their traditional services have significantly decreased and direct channels such as mobile and the internet are becoming increasingly important in retail banking. According to surveys, more than 60% of customers worldwide are expected to use mobile banking till 2020 and more than 90% will likely be using online banking.

Keywords: Trends in banking, online banking, ATM, financial services.
Introduction

In recent years, we have witnessed significant changes in the banking business models which have encouraged the introduction of diverse services through various channels such as mobile, internet, ATMs and so on. Banks operate in a challenging world of rapid technological change, technology-savvy customers, and increasing expectations. In this environment, banks should offer their services to the customers according to their expectations and needs. Although these changes can pave the way for banks’ growth and progress, the thriving implementation of such strategy requires accurate investments and development of new capabilities which will be surely accompanied with tangible economic feedbacks.

Virtual Channels have gained more popularity due to the penetration of mobile phones and more accessibility to internet. Not only are new banking customer groups willing to use multiple channels, but also they prefer to use other channels than branches for their complex banking transactions. Although branches are still considered as the main channel for providing banking services, but studies show that customers visit to branches to receive their traditional services have significantly decreased and direct channels such as mobile and the internet are becoming increasingly important in retail banking. According to surveys, more than 60% of customers worldwide are expected to use mobile banking till 2020 and more than 90% will likely be using online banking.

In developed economies, banks operate in highly competitive environments and are increasingly challenged to differentiate through products and pricing. They seek out innovative technologies to help them build a stronger relationship with their customers and increase customer loyalty, while controlling operational costs. This is the key reason that top banks across the globe are investing in mobility. Banks are looking at newer avenues such as mobile remote deposit capture (RDC) and mobile marketing to provide value-added services to customers and increase revenues by charging nominal fees for the services. The increased preference for social media by customers is driving banks to leverage social media and social analytics tools to strengthen decision-based marketing. At the same time, banks are exploring the potential of social media tools for increasing workforce collaboration and productivity.

As observed, branches are not the only channel for rendering banking services anymore and electronic channels such as internet banking have gained more prominence. Thus, to be able to compete in this environment, banks should take these evolutions into consideration and offer their services in accordance with the needs and demands of their customers. Among the most important changes that have occurred in the banking industry include the transformation of branches, increased use of mobile phones, employment of video banking, and customers’ willingness to use social media to communicate with their banks. These changes are briefly discussed in the following section:

1) Branch Transformation

Though studies show that customer visits to branches have reduced significantly, it does not imply total elimination of branches. In fact, branches continue to be the preferred channel for personal attention and advice on new services. Direct channels like ATM and telephone banking have not been able to make branches obsolete and there is no reason to believe that newer self-service channels would replace branches. The argument of higher operating costs compared to direct channels is unsustainable as most direct-channel customers are not profit making compared to branch
customers. It is believed that technology, innovation and channel integration will play a key role in re-engineering and re-energizing the branch as one of the preferred modes of banking.

2) **Mobile Phones**

As Internet access continues to improve over mobile devices, mobile is rapidly emerging as a banking channel. Preferred features for mobile banking include real-time expense tracking, mobile payments, and location-based commerce. According to the studies, 13 percent of consumers in developed countries and 18 percent of consumers in emerging markets prefer to use mobile banking applications for real-time expense tracking, personal finance management (PFM), and payments. Those who prefer mobile for these services tend to be younger (Gen Y or Gen X), tech-savvy, and more-frequent branch users.

It is estimated that till 2017, more than one billion people will be using their mobile phones for their banking transactions; thus, banks – taking this fact into consideration – should be thinking of ways to allow customers to perform their banking transactions through their mobile phones instead of visiting their branches.

3) **Video**

Video is one of the channels that have been noticed by the bankers in recent years. There is no substitute to talking to consumers when and where they need person-to-person help with their finances. Two-way video banking lets financial institutions keep customer engagements personal and expand the reach while cutting back on their expensive branch investments.

In banking, video is a key enabler of building trust in situations where humans are not physically available. 23 percent of consumers in developed countries and 43 percent of consumers in emerging markets saw the use of video conferencing with remote experts as a way to enhance the quality of advice in situations where access to quality expertise is a concern. Video is a key feature and experience enhancer for unmanned banking kiosks, afterhours multipurpose ATMs, and next-generation virtual banking delivered to homes and offices. Video adoption in consumers’ personal lives or at work isn’t limited to younger tech-savvy consumers. Cisco IBSG’s study indicates that Gen X and early-majority technology adopters are now solid believers in the role of video.

4) **Social Media**

In the recent years, due to rapid development of web-based technologies and promotion of interactive network capacity in the internet, we have witnessed general tendency towards social media. Regarding the fact that more than 2 billion people around the globe are using social media now, banks should consider the possible actions in social media more seriously. Social media adoption starts with marketing and advertising. Banks are now beginning to embed their transactional capability into the social sites, and use their rich interactivity to drive customer engagement.

However, social banking is still lagging, as an overwhelming number of customers are reluctant to mix banking with social activities. Only 1 percent of consumers in developed countries and 8 percent in emerging markets indicated a preference for using the social media channel to conduct banking transactions. A key reason for their reluctance is concern about privacy and lack of control over
personal information. When it comes to going social, one segment stands out – younger, tech-savvy customers, especially those in emerging countries who tend to be dissatisfied with their banks.

**Future of the Banking Industry**
Retail banks across the globe are expected to undergo a digital transformation in the next few years as customers increasingly prefer using digital channels (online and mobile) to interact with their banks. In the last decade, banks leveraged the internet to reach out to a larger pool of customers at a low cost. They offered basic banking services online (such as account status and fund transfers) to their customers. Also, banks have extended their services to promote both online and mobile channels and improve their distribution mix. These efforts are expected to result in a radical change in how retail banks use different channels to reach out to customers.

In 2010, 60.1% of customers had never used mobile banking, but that number is expected to fall to 37.7% by 2020 as shown in the following exhibit. Customers are expected to shift to online and mobile channels for their daily transactions over the next few years. Though the direct channels will gain prominence, branches will not move out of the equation. Other additive channels will act as catalysts to drive overall sales and cross-selling of products, and branches may be required to complete some part of the transaction. Banks will need to tailor their branch network with new and different branch formats to match customer profiles and needs in each location (everything from unmanned, fully-automated teller machines to full service branches).

These changes will help banks transform their distribution profile, reduce costs by up to 30-50 percent, and increase sales.

**Characteristics of Banks of the Future**
According to surveys, customers expect their financial institutions to provide them with full and comprehensive information about their activities, to teach them how to use different channels such as internet banking correctly, to provide them with more online information and to have experienced and responsive employees. Here are some ideas about the way in which the bank of the future will differ from existing financial institutions:

- **The “Bank of the Future”** is a bank for individuals. It offers a broad range of services and products, but focuses on gaining an in-depth knowledge of individual customers in order to be more able to meet their specific needs.
- **The “Bank of the Future”** does not offer its own products, because it believes third-party products lead to better transparency and enhanced customer trust.
- **The “Bank of the Future”** encourages communication between customers through online platforms, private messaging, chats and forums. Customers can write comments about the financial products on the bank’s website, too.
- **The “Bank of the Future”** customers start as newbies, but can go through different stages (e.g. beginner, intermediate, expert, etc.) once they have taken online courses or have become familiar with the use of different products. The higher their level, the more they have access to opinion sharing and rights, for example so as to determine the bank’s investment approaches.
- **The “Bank of the Future”** will be embedded in a cooperative structure. If customers desire to be more involved in the managing of their portfolios, the structure of a new bank will have to differ from the common structure we see today. A cooperative structure, allowing the bank’s
customers to become shareholders of the bank they do business with, seems to be the most appropriate solution for meeting the customers’ needs.

**Conclusion**
As mentioned earlier, the usage pattern of traditional banking channels is changing, driven by advancements in technology, innovative offerings from non-banks, and changes in consumer preferences. Banks across the globe are transforming their branch networks to focus more on sales and advisory services. Digital channels such as ecommerce portlets or social banking applications are being designed to offer an enhanced experience to customers with increased ease of use and multiple options to serve banking needs. The number of channels and different platforms for digital delivery are expected to grow rapidly, leading to increased complexity in processes. Banks will be challenged to integrate the backend systems for providing a seamless experience to customers using multiple channels.

Considering the opportunities facing the banking system in Iran due to the lifting of the imposed sanctions, Iranian banks should pay great attention to the above-mentioned changes and take the global trends into consideration. To be successful in today’s challenging business environment, banks and other financial institutions must be creative and fluid in the way they reach out to, engage, and service their customers and members. Accordingly, Iranian banks shall try to pay attention to actions such as adding new services and capabilities to different channels, promoting the quality of direct channels such as mobile banking and internet banking, and providing the appropriate infrastructure for integration of channels and information system.
References


